

PRELIMINARY REPORT

INCREASES IN OPERATING COSTS OF BERKELEY APARTMENTS

Kenneth Baar
September 4, 1987

This report was prepared pursuant to a resolution by the Berkeley Stabilization Rent Board authorizing a study of apartment operating costs.

The purpose of the study is to provide technical assistance to the rent board in determining the 1988 annual general adjustment.

The author gratefully acknowledges the assistance of Jay Kelekian, Elizabeth Mueller, and Brian Vejby in preparing this report.

SUMMARY

The purposes of this report

The purposes of this report are to provide the rent board and the public with estimates of operating cost increases for Berkeley apartments that occurred between July 1986 and the present and to estimate the amount of the rent increase required to cover each of these operating cost increases.

IT IS NOT THE PURPOSE OF THIS REPORT TO DETERMINE WHAT GENERAL ADJUSTMENT WOULD BE "FAIR" OR TO MAKE A RECOMMENDATION ABOUT WHAT GENERAL ADJUSTMENT SHOULD BE GRANTED. Residents hold varying views about: what the law should be regarding rent increases, what factors should be considered in setting general adjustments, and whether rent increases should be more, less, or equal to the amount necessary to cover operating cost increases. There has been continual debate over whether past general adjustments have been more or less than reasonable. These questions involve issues which are beyond the scope of this report.

It should be understood that the operation of the ordinance and the policies of the board determine how the data in this report may be used. If this study were used in the context of a different annual general adjustment standard, it would lead to differing results, based on such factors as whether the standard also includes a net operating income adjustment.

Apartment Operating Cost Increases


In the past year, there have been exceptional increases in apartment operating costs.

1. Sewer service rates for buildings with five or more units increased by 115%; rates for buildings with four units or less increased by 88%.

2. Pursuant to the passage of an initiative ordinance, Measure H - the "Berkeley Public Schools Enrichment Act of 1986", a new property tax assessment was imposed.

3. E.B.M.U.D. adopted a wet weather facilities fee of \$2.40 per apartment unit per month, subject to a ceiling of \$12.00 per month per apartment building.

4. The Rent Stabilization Board's registration fee was increased by \$20 per year.



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The rent increases required to cover the significant operating cost increases of the past year are as follows:

RENT INCREASES REQUIRED TO COVER OPERATING COST INCREASES

<u>Item</u>	<u>Amount</u>
City Sewer Fee	2.40%
School Tax (Measure H)	1.90
Registration Fee	.50
Water Rate Increase	.66
(other cost increases)	.77

There was also evidence that some apartment owners incurred substantial increases in insurance costs, while others did not incur substantial increases. Insurance costs and cost increases varied enormously among buildings.

At the request of the annual general adjustment committee, this year's report also includes a discussion of a uniform dollar (as opposed to a uniform percentage) general adjustment.

The Ordinance

The ordinance states that the board shall consider "... data indicating increases or decreases in the expenses relating to the rental housing market..." (Section 11b) It also states that adoption of an increase greater than 45% of the percentage increase in the Consumer Price Index (CPI) shall require the votes of six of the nine commissioners. (Id.) During the applicable period (June 1986 - June 1987), the CPI increased by 3.1%. 45% of that amount is 1.4%.¹

Increases in consumer price indices (San Francisco-Oakland Metropolitan Area - All Urban Consumers) from June 1985 to June 1986 were as follows:

CPI Increases

<u>Index</u>	<u>Pct. Increase</u>
all items	3.1%
all items less shelter	1.7
rent residential	4.6

The chart on the following page summarizes the percentage increases in each of the types of apartment operating expenses and the rent increases required to cover those increases.

¹ In June 1987, the CPI-all items, all urban consumers for the San Francisco/Oakland area was 353.5. In June 1986, it was 344.0.

OVERALL RENT INCREASES REQUIRED TO COVER OPERATING COST INCREASES

Expense	Ratio	Pct. Increase in Expense		Pct. Rent Increase Required	
Water	.014	x	47%	=	.66
Sewer Treatment	.011	x	none	=	-
Sewer Service	.023	x	105%	=	2.40
City Bus. License	.010	x	3.5%	=	.03
Library Assessment	.007	x	none	=	-
Refuse Collection	.025	x	none	=	.8
Property Taxes	.066	x	2%	=	.13
Insurance	.059	[see discussion] ^[27%]			1.6
Management	.06	x	1.7%	=	.10
Maintenance	.141	x	1.7%	=	.24
Landscaping, Park Maintenance & Street Lighting	.018	x	15%	=	.27
Rent Board Registration Fee			\$1.67/mo./ apt. unit		.50
School Tax (Measure H)			new assessment		1.90
Gas (hot water only)	.024	x	none	=	-
Electricity (common areas only)	.025	x	none	=	-
<u>Master Metered Buildings</u>					
gas heat	.055		none	=	-
all electricity	.054	x	none	=	-

EBMUD plans rate hike, new \$28.80 annual charge

By Carol Benfell
The Tribune

The East Bay Municipal Utility District is considering hiking homeowners' monthly water bills by 8½ percent and imposing a new \$28.80 annual charge on property tax bills.

The charges would add about 85 cents to the average monthly residential water bill, but users will still pay less than most other Bay Area residents.

The \$28.80 annual fee would be in addition to the average \$5.60 monthly sewage bill and

would come on top of additional sewage charges being levied by individual cities to repair and rebuild sewers.

The water-rate increases would affect nearly all Alameda County residents living north of Hayward, including the City of Alameda, and most Contra Costa residents south of Pleasant Hill or west of Crockett.

The new sewage charge would affect residents in the cities of Alameda, Albany, Berkeley, El

See EBMUD, Back Page

EBMUD

Continued from Page A-1

Cerrito, Oakland and Piedmont.

A public hearing on the proposed rate increases is set for May 26, with a vote to follow.

EBMUD staff told the Board of Directors yesterday that the rate increases are needed to balance the district's proposed 1987-88 budget of \$256.4 million.

This figure includes \$206.8 million for water service and \$49.6 million for sewage service and is a \$21.6 million hike from the 1986-87 budget.

General Manager Jerome Gilbert said the 8½ percent monthly increase in water rates is needed to pay for stepped-up repair and maintenance programs at district facilities — hydro-electric plants, filter plants, tanks, reservoirs and distribution systems.

The money will also be used to finance a new \$45.9 million administration building to be constructed in downtown Oakland, Gilbert said.

The district also anticipates raising water rates another 10.5 percent in 1988, partly to offset the loss in revenues caused by this year's drought. If the drought continues a second year, that figure could be even higher, Gilbert said.

Walter Bishop, head of EBMUD's wastewater division, said the \$28.80 annual fee will help fund a new \$160 million program to improve the capacity and condition of the district's

Average Annual Water Charges Single Family Homes

Agency	\$ per year
City of Livermore	\$161.40
EBMUD (8.5% increase)	\$132.36
EBMUD (current)	\$121.92
Contra Costa Water District	\$112.21
Alameda County Water District	\$114.00
City of Hayward	\$111.30
City of San Francisco	\$79.20

Source: East Bay Municipal Utility District

sewer system.

The improvements were required by the Environmental Protection Agency because sewage was overflowing onto city streets at some points during heavy winter rains and running, untreated, into San Francisco Bay, he said.

By Frank Pennock Jr./The Tribune

sewage charge is expected until June 1990, when rates may be raised by 5 percent, Bishop said.

Monthly rates would be raised before then only if the district's new contract for disposal of sludge left over from its sewage treatment process is substantially higher than the old one. Bishop

City sewage rates to double

Rate hike part of effort to raise money for repairs

By Catherine Winter

The Voice

The City Council has approved a measure that will almost double sewer rates for Berkeley residents and will more than double rates for most businesses. The rate hike is designed to raise about \$150 million over the next 20 years to pay for repairs to Berkeley's sewer system.

Assistant City Manager Brian Lee said that a recent study undertaken at the order of the Environmental Protection Agency showed that Berkeley's sewer system was badly in need of repair. He said that problems including bottlenecks and cracks in sewer lines have led to streets collapsing and sewage bubbling up onto city streets.

Berkeley has been ordered by the EPA Regional Water Quality Control Board to make repairs, and Lee said the city is currently not bringing in enough money to fund those repairs. "We have no option," he said. "We have to raise the rates, or we'll be violating standards set by the federal government."

The measure will raise the flat rate paid by residential users from

\$6.80 to \$12.84 per month. Non-residential users will be charged a flat fee of \$10.57 per month, as well as a charge based on the amount of water they use.

The ordinance also includes a charge of \$2,770 for new service. Councilmember Fred Weekes argued against the fee at the council's special meeting on Thursday last week, saying that it unfairly taxed people who bought new houses. He said the hook-up charge would be added onto the mortgage of new homes, hiding the cost.

"It's a hidden tax," Weekes said after the meeting. "And that's fundamentally unfair. You have to tax people uniformly. This way, people are taxed at random."

Weekes pointed out during the meeting that the city only set up about 50 new hook-ups last year. He said that 50 new hookups this year would only bring in about \$125,000 if new users were charged the \$2,770 fee. "In terms of \$10 million, which is what we have to raise this year, that's only 1 percent," he said.

Weekes suggested omitting the hook-up charge from the ordinance, but Councilmember Ann Chandler said the council should

pass the ordinance as it was written. "If we cut some rates, other rates will have to increase," she said. "I think we're just going to have to bite the bullet on this one, because the money has got to come from somewhere."

The council also discussed the possibility of exempting churches and schools from the rate hikes.

During the public hearing, Don Baxter, pastor of Newman Hall at College Avenue and Dwight Way, said that churches were being asked to pay more than was fair.

Mayor Loni Hancock said she appreciated what Newman Hall had done for Berkeley, but that the city should not exempt all churches from the rate hike. "There may be cases where the city can offer specific subsidies if it so chooses," she said. "There are many churches that have done nothing like what Newman has done."

All of the council members voted for the ordinance, except Don Jelinek and Nancy Skinner, who were absent, and Weekes, who voted against it.

The rate hikes are set to go into effect July 1 and to remain in effect for two years. After two years, the rates will rise again.

Little opposition to Measure H tax hike for public schools

By Ken Epstein
The Voice

Though Measure H, the Support Our Schools initiative, is one of the least controversial of the 12 measures on Berkeley's November ballot, some people have some reservations about its passage.

"This measure has more support than most ballot measures have gotten in years," said Richard McMurry, one of the measure's supporters. "There's no organized opposition."

The goal of the measure, he said, is to give the schools "enough money to make big changes." They need "more than a drop in the bucket," he said.

The measure would raise \$5.8 million a year to support the public schools by creating a tax on residential and commercial property and is widely popular. It is supported by all but one of the school board members, businessmen and organizations and individuals across the political spectrum.

But the opposition to Measure

H at the polls will come from voters who are reluctant to pass any new taxes, and under state law it must win with a two-thirds majority.

The new tax would remain in effect for eight years. One-half the money it raises would go to reduce class size, while the rest would be divided among books, instructional supplies, school enrichment programs and buildings and grounds improvements.

Commercial properties and homes would be taxed based on their size. For a small, 1,200-square foot house, the tax rate would be \$84 a year. A landlord-owning an average sized four room apartment would pay about \$36 a year. The rent board would allow the landlord to pass the cost on to the tenants.

The measure was written by the Support Our Schools committee, after months of talking with

parents and teachers, McMurry said. It was circulated as a petition and presented with 3,000 signatures to the Board of Education. The board placed it on the ballot on June 30.

Robert Secular is a Berkeley real estate broker who supports Measure H. "The measure is carefully written to do things to improve the schools," for the money to "go into the classroom," he said.

"Berkeley traditionally has had excellent schools," he said, but people must understand that "they can't have good schools if they don't want to spend the money." If the schools are improved, all the property values in Berkeley go up, he added. "I own some commercial property, and I'd be glad to pay the higher taxes."

One of the major obstacles to getting support for a local school tax has been distrust of the ad-

ministration and the school board, McMurry said, from people who are afraid that the money would be misused.

"We wrote the measure to try to address that mistrust, to say exactly what the money would go for," he said.

The law would divide the money into special funds which can only be used for specified school improvements. It also provides for an independent auditor to check how the funds are spent, district school site committees to decide on expenditures and a public hearing each January to review the district's compliance with the law.


Some people have reservations about Measure H because they "don't want to give irresponsible people money to squander," said Gilda Feller, former city council member and member of the Berkeley Democratic Club. These people would prefer to see a new board before passing the tax, but,

she said, she supports the measure because she does not believe in "starving out" the schools.

"This particular school board has been reckless and irresponsible," she said, but people should vote for a better school board rather than deprive the schools of the money they need.

Boardmember Steve Lastig supports the measure, saying it will help "fund a lot of things," but "it won't solve the basic funding problems of public education." These problems will not be solved until the state spends more for schools, he said.

McMurry said similar measures have passed in nine cities across the state in the last four years. But "there are only a few weeks left. If parents and teachers go door to door" and explain to people without kids why they should support the measure, it will win, he said. "If they decide to let someone else do the work, it will fail."



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CONTENTS

I. Introduction	2
(a) Purpose of Report	2
(b) The Berkeley Rent Stabilization Ordinance	2
(c) 1984 State Supreme Court ruling on the general adjustment standard	3
(d) Background - rent increase methodologies	4
II. Methodology	6
(a) Basic description	6
(b) Data Sources	6
(i) Estimating Operating Expense Ratios	6
(ii) Estimating Increases in Operating Costs	7
(e) The Overall Rent Increase Required to Cover Operating Cost Increases	8
III. Prior Operating Cost Studies and General Adjustments	9
IV. Ratios of Each Type of Operating Expense to Gross Income	10
V. Operating Cost Increases Since July 1986	13
(i) water	13
(ii) sewer treatment	15
(iii) sewer service	15
(iv) city business license fee	16
(v) library assessment	17
(vi) refuse collection	18
(vii) property taxes	18
(viii) insurance	19
(ix) management	22
(x) maintenance	23
(xi) landscaping, street lighting, & park maintenance assessments	24
(xii) rent board registration fee	25
(xiii) gas	25
(xiv) electricity	26
(xv) school assessment (Measure H)	27
VI. Overall Rent Increases Required to Cover Operating Cost Increases	28
VII. Methodologies for Implementing Rent Increases	29

I. INTRODUCTION

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It should be understood that the operation of the ordinance and the policies of the board determine how the data in this report may be used. If this study were used in the context of a different annual general adjustment standard, it would lead to differing results, based on whether the standard also includes a net operating income adjustment.

(b) The Berkeley Rent Stabilization Ordinance

Each year under the Berkeley rent stabilization law, the Berkeley Rent Stabilization Board has the duty of determining what across-the-board increases or decreases (general adjustments) in rents shall be authorized.

The ordinance states that the board shall consider "... data indicating increases or decreases in the expenses relating to the rental housing market..." It also states that adoption of an increase greater than 45% of the percentage increase in the Consumer Price Index (CPI) shall require the votes of six of the nine commissioners. During the applicable period (June 1986 - June 1987), the CPI increased by 3.1%. 45% of that amount is 1.4%.

The portion of the general adjustment section of the ordinance governing the amount and criteria for the general adjustment states:

Section 11. ANNUAL GENERAL ADJUSTMENT OF RENT CEILINGS.

a. Once each year, the Board shall consider setting and adjusting the rent ceiling for all rental units covered by this Ordinance in general and/or particular categories of rental units covered by this Ordinance deemed appropriate by the Board. The Board shall hold at least two public hearings prior to making any annual general adjustment of the rent ceilings. ~~The first such public hearing shall be conducted no later than October 31, 1980, and the first annual general adjustment shall be made no later than December 31, 1980.~~ The Board shall publish and publicize notices of the date, time, and place of the public hearings at least thirty (30) days prior to the hearing date. The two required public hearings shall be conducted and the annual general adjustment shall be set between September 1 and October 31, of each year. The annual adjustment shall become effective the following January 1.

b. In making annual general adjustments of the rent ceiling, the Board shall:

(1) Adjust the rent ceiling upward by granting those landlords who pay for utilities a utility adjustment for increases in the City of Berkeley for utilities.

(2) Adjust the rent ceiling upward by granting landlords a property tax, maintenance and operating expense increase adjustment (exclusive of utilities) for increases in the City of Berkeley for property taxes and maintenance and operating expenses.

(3) Adjust the rent ceiling downward by requiring landlords to decrease rents for any decreases in the City of Berkeley for property taxes.

(4) Adjust the rent ceiling downward by requiring landlords who pay for utilities to decrease rents for any decreases in the City of Berkeley for utilities.

In adjusting rents ceilings under this subsection, the Board shall adopt a formula or formulas of general application. This formula will be based upon ~~a survey of~~ the annual rent registration forms, surveys, information and testimonies presented at public hearings, and other available data indicating increases or decreases in the expenses relating to the rental housing market in the City of Berkeley set forth in this subsection. For maintenance and operating expense adjustments, the Board may also use survey data from surrounding communities where appropriate. The Board shall make no more than one annual adjustment of rent ceilings per rental units per year.

Adoption of a formula greater than forty-five percent (45%) of the increase in the Consumer Price Index for the twelve months ending the previous June 30 shall require the affirmative vote of six (6) Commissioners, other provisions notwithstanding. Adoption of such a formula shall be a specific and special exception to the requirement of only five (5) affirmative votes to make a decision. For the purposes of this subsection, the Consumer Price Index shall mean the Consumer Price Index for all urban consumers in San Francisco—Oakland, all items (1967 equals 100), as reported by the Bureau of Labor Statistics of the U.S. Department of Labor, as it pertains to the City of Berkeley.

(c) 1984 State Supreme Court ruling on the general adjustment standard

In October 1983, the California Court of Appeal ruled that the Berkeley ordinance was unconstitutional because its general adjustment mechanism only provided for rent increases adequate to cover operating cost increases without permitting any growth in income. The court concluded that requiring landlords to individually petition in order to realize growth in income was unduly burdensome. Fisher v. City of Berkeley, 195 Cal. R. 836.

In December 1984, the State Supreme Court overturned the Court of Appeals decision and ruled that the Berkeley ordinance was constitutional. The court noted that under the ordinance:

The adjustment for all landlords under section 11 [general adjustments] is designed to allow landlords to retain the same dollar amount of profit in subsequent years that they received in May 1980. In order to acquire rent increases that reflect cost increases not imposed on other landlords generally, or in order to seek an increase in dollar amount of return (i.e., the dollar amount of profit), a landlord must secure an individual adjustment pursuant to section 12 [individual adjustments]

(Fisher v. City of Berkeley, 37 C.3d. 644, 209 Cal. R. 682, 718 (1984)).

And, the court rejected the argument that these provisions made the ordinance facially confiscatory.

In February 1986, the U.S. Supreme Court rejected a challenge to the Berkeley rent control ordinance based on anti-trust grounds. (U.S. , 106 S. Ct. 1045, 1986) It dismissed fair return issues for want of a substantial federal question. (105 S. Ct. 2653, May 28, 1985)

In 1987, the Board adopted an individual adjustment regulation which defined fair return as 1980 net operating income adjusted by 40% of the percentage increase in the Consumer Price Index since 1980.

(d) Background - Rent Control Increase Methodologies

Rent control ordinances use a variety of methodologies for determining general adjustments.

Under some laws, general adjustments are a fixed percentage (e.g. 5% per year) regardless of actual changes in the expenses associated with operating apartments. The advantage of such an approach is its simplicity. The drawback of using a fixed percentage is that it might not bear any particular relationship to changes in apartment operating costs in a particular year.

Under other laws, annual general adjustments are tied to a percentage of the percentage increase in the Consumer Price Index (CPI). (Usually, the Consumer Price Index-all items is used; references in this report to the CPI refer to the CPI-all items unless otherwise noted.) Within the past few years, Los Angeles and San Francisco have changed their general adjustment standards from a fixed percentage to a percentage of the annual percentage increase in the CPI.

The drawback of using the CPI as a measure is that the CPI represents a market basket of household goods (including such items as food, medical care and transportation), while apartment operating costs are limited to particular types of expenses. Therefore, the CPI may not be a good indicator of increases in apartment operating costs. Increases in the types of expenses associated with apartments have often been well above or below the rate of increase in the CPI. For example, in California, property tax increases are limited to 2% per year, except when a property is sold. On the other hand, increases in utility costs (e.g. gas, electricity, water, garbage) have been far above the inflation rate in some years.

The advantage of the CPI method is that it relies on a single piece of information that cannot be disputed (although the appropriateness of its use can be questioned).

While most rent control laws fix the amount of the annual general adjustment, some of the laws delegate to a board the authority to determine annual rent increases, based on an analysis of increases in apartment operating costs (a weighted operating cost index). This approach is authorized by the Massachusetts state rent control enabling act and New York rent control laws. Boards which operate under this type of law typically perform annual operating cost studies in order to estimate the rent increase required to cover apartment operating cost increases or decreases. In essence, these jurisdictions use a weighted price index for apartment expenses, rather than the CPI, in order to calculate general adjustments. (The concept of tying general adjustments to operating cost increases originated with World War II era rent controls.)

While the weighted operating cost approach to estimating increases in apartment operating expenses may be more precise than the CPI, it should be noted actual expense increases for some types of expenses are not known. Therefore, the CPI usually plays a major role in estimating apartment cost increases. Since actual changes in maintenance and management expenses, which constitute over half of operating expenses, are not known, rent boards typically use one of the consumer price indexes to estimate increases in these expenses.

II. METHODOLOGY

a. Basic description

The use of an apartment operating cost index approach involves three basic steps.

1. The ratio of each type of operating cost to gross income is estimated.

2. The percentage increase in each type of operating cost is estimated.

3. Then, the ratio of each type of operating cost is multiplied by the percentage increase in that operating cost. This step provides an estimate of the rent increase necessary to cover that operating cost increase.

For example, if it is estimated that refuse collection expenses are .03 (3%) of gross income and that refuse collection rates increased by 30%, a rent increase of slightly less than 1% is needed in order to cover the resulting cost increase. The calculation below illustrates how such a calculation is made.

$$\begin{array}{rccccccc} \text{Ratio (Weight)} & & \times & \text{Pct. Increase} & & = & \text{Rent Increase Required} \\ .03 & & \times & 30\% & & = & 0.90\% \end{array}$$

In order to calculate the overall rent increase required to cover operating cost increases the rent increases required for all the types of operating expenses are added up.

b. Data Sources

Estimates of the ratios of different operating expenses to gross income and their rates of increase are based on public records, "surrogate" data sources, surveys, and some assumptions. The board does not have records of landlords' operating expenses, except for buildings involved in individual adjustment petitions. For some types of expenses very precise estimates can be made, while for others the estimates are less precise.

(i.) Estimating operating expense ratios

Property taxes, refuse collection, license fees, special assessments, and sewer maintenance are public record. Therefore, it is possible to make very precise estimates of these cost ratios. The ratios of other expenses, including water and gas and electricity have been surveyed from a sample of properties in the course of prior general adjustment studies.

The September 1982 general adjustment study included substantial data collection in order to estimate the ratio of various operating

expenses to income. A sample of several hundred properties was used in order to estimate property tax, refuse collection, and library tax expense ratios. E.B.M.U.D. provided data on average water consumption which was used to estimate water and sewer expense ratios. The September 1982 study also contained a detailed analysis of the methodologies, issues, and problems associated with creating a weighted cost index for residential rental units.

Maintenance and management constitute a major portion of operating expenses. However, since data on these expenses are not publicly available nor easily obtainable, data derived from other studies has been the principle source for estimating expense ratios for these items.

Management expense ratios have been assumed to be at standard levels for professionally managed apartments. For landlords who manage their own properties a management expense has been allowed based on the theory that the labor contributed by such owners is comparable to management company fees paid by landlords who do not manage their properties.

Estimates of maintenance expense ratios have been based on the varying ratios indicated by city data, real estate industry data, review of individual adjustment petitions, and surveys of apartment owners.

The bases for the operating expenses ratios used in this report are set forth in prior operating cost studies.

(ii.) Estimating increases in operating costs

Some types of operating cost increases can be precisely estimated. For example increases in property taxes, water and sewer rates are known and are largely beyond the control of landlords.

Other types of expenses are also governed by public rates, but may be partially in the control of landlords. For example, the city may raise refuse collection rates, but landlords may cut back on service levels. In instances where a city service is involved, bills for different years can be compared in order to determine average increases in expenditures.

Increases for other types of expenditures, including management and maintenance can only be estimated.

Methodologies for calculating estimates of different types of cost increases are open to debate and positions about which methodology is most appropriate tend to accord with the particular result desired. For example, various consumer price indexes have been used in rent controlled jurisdictions in order to estimate increases in maintenance costs. Each of the various indexes have

weaknesses and strengths. Sometimes landlords or tenants have argued that a particular index, such as the Consumer Price Index all items less shelter, is superior to the all-items index. Such arguments are usually made when the use of an alternate index would produce a more favorable result for its proponents.

At public hearings in prior years, a number of owners have noted that the percentage cost increases that they incurred for particular expenses were above the averages projected in this report. In response to these comments, it should be noted that this report relies largely on rate increases and price indexes in order to estimate average cost increases. The report generally assumes that consumption levels for items such as water and refuse collection services have remained constant. For particular owners, the cost increase may be well above or below the average depending on the particular circumstances of the building or changes in consumption levels. (For example, some owners indicated that their tenants were using more electricity.)

c. The overall rent increase required to cover operating cost increases

Since operating expenses constitute a portion of gross rental income (e.g. 50%), a rent increase equal to the full inflation rate is usually not required in order to cover operating cost increases.²

² "Operating expenses" are expenses which are associated with the operation of the property. Mortgage interest and principle payments are not considered "operating expenses".

The balance of gross income, which is left over after operating expenses, is "net operating income". "Net operating income" is the source of funds for debt service and cash flow from the property.

Gross Income - Operating Expenses = Net Operating Income

Net Operating Income - Mortgage Payments = Net Income (Cash Flow)

While net operating income ratios exhibit some degree of uniformity among properties, net income/gross income ratios vary enormously among properties according to the purchase date, the size of the downpayment, and the type of financing associated with the property.

Since operating costs equal only about 40 to 50% of gross income, on the average, the rent increase required to cover increases in operating costs typically will equal approximately 40 to 50% of the inflation rate. (Some rent control jurisdictions which use the weighted operating cost methodology also include a partial inflation adjustment for the net operating income portion

III. PRIOR OPERATING COST STUDIES AND GENERAL ADJUSTMENTS

As Board members are well aware, prior general adjustments have been the subject of controversy and debate. The table below sets forth the rent increases permitted since the adoption of Measure D in June 1980.

<u>Rent Board Annual General Adjustments 1981 - 1986</u>		
<u>Year</u>	<u>General Adjustment</u>	<u>Operating Cost Analyses</u>
1981	5% + (1.2% if LL pays for heat)	Rent board a.g.a committee
1982	9% + \$4-\$16 if LL pays heat & elec. (depending on apt. size)	Lebowitz report (a.g.a. committee) C.A.L.P.I.R.G. report
1983	4.75% + (0.25% if LL pays any gas or elec.)	Baar-Keating Report Staff Report
1984	0%	Baar-Keating Report Brauer, Callejo, Gross, & Illgen analysis Gee, St. John analysis Board Resolution re: expenses
1985	2%	Baar Report
1986	3% + (\$2.50/month)	Baar Report
1987	3.5%	Baar Report

IV. RATIOS OF EACH TYPE OF OPERATING EXPENSE TO GROSS INCOME

In order to estimate the ratios of each of the types of operating costs to gross income, estimates from prior years need to be recalculated based on the rent increases and cost increases that have occurred since that date. For example, five years ago, a particular type of operating expense may have averaged 2% of gross income. However, the ratio of that operating expense to gross income may be higher today, because that expense may have increased by 50%, while overall rent increases of only 30% may have been permitted.

Recalculations of operating cost ratios are made by multiplying the prior ratio by the rate of the cost increase and then dividing that amount by the rate of the rent increase.

Hypothetical Ratio Recalculation

i.e. prior ratio = 2%
rate increase = 50%
rent increase = 30%

$$\begin{aligned}\text{new ratio} &= \frac{\text{prior ratio} \times (1.00 + \text{rate increase})}{1.00 + \text{rent increase}} \\ &= \frac{.02 \times (1.00 + .50)}{1.00 + .30} \\ &= \frac{.02 \times (1.50)}{1.30} \\ &= \frac{.03}{1.30} \\ &= .023\end{aligned}$$

The 1982 report included estimates of the ratios of different types of operating expenses to gross income. Since then, these ratios have been recalculated on an annual basis in order to reflect the fact that the various types of operating costs and rents increase at different rates.

The purpose of this section is to recalculate the FY 1986-87 ratios based on the operating cost increases and rent increases which have occurred since the summer 1986 report was prepared.

RECALCULATION OF OPERATING COST RATIOS

Operating Expense	(A) prior weight	(B) percent increase since prior yr.	(C) $\frac{A \times (1.00 + B)}{1.00 + '87 \text{ g.a.}}$	(D) 1986-87 weight
1. property taxes	.066	2%	$\frac{.066 \times (1.00 + .02)}{1.035}$	=.065
2. library assessment	.007	2.9%	$\frac{.007 \times (1.00 + .029)}{1.035}$	=.007
3. refuse collection	.022	16%	$\frac{.022 \times (1.00 + .16)}{1.035}$	=.025
4. water	.014	4%	$\frac{.014 \times (1.00 + .04)}{1.035}$	=.014
5. sewer maintenance (service)	.019	25%	$\frac{.019 \times (1.00 + .25)}{1.035}$	=.023
6. sewer treatment	.010	11%	$\frac{.010 \times (1.00 + .11)}{1.035}$	= .011
7. business license fee	.009	20%	$\frac{.009 \times (1.00 + .20)}{1.035}$	=.010
8. registration fee*	.0084	0%*	$\frac{.0084 \times (1.00 + .00)}{1.035}$	=.008
(* 1985-86 increase covered by rent surcharge)				
9. insurance	.043	43%	$\frac{.043 \times (1.00 + .43)}{1.035}$	=.059
10. management		(assumed to be 6%)		.060
11. maintenance	.144	1.5%	$\frac{.144 \times (1.00 + .015)}{1.035}$	=.141
12. landscaping, park maintenance & st. lighting	.014	30%	$\frac{.014 \times (1.00 + .30)}{1.035}$	=.018
13. gas - all	.055	-4.5%	$\frac{.055 \times (1.00 - .045)}{1.035}$	=.051
hot water only	.024	-6%	$\frac{.024 \times (1.00 - .06)}{1.035}$	=.022
14. electricity - all	.054	-3%	$\frac{.054 \times (1.00 - .03)}{1.035}$	=.051

V. OPERATING COST INCREASES SINCE JULY 1986

In this section, operating cost increases which took effect after July 1, 1986 are discussed. City rate increases which took effect on July 1, 1986, as well as cost increases occurring since July 1985, were discussed in last year's report.

(i.)

Water

The ratio of water costs to gross income has been estimated to be 1.4% (.014).

Effective July 1, 1987 water rates were increased from \$0.666/water unit to \$0.709/water unit, an increase of 6.5%.

In addition, E.B.M.U..D. instituted a wet weather facilities fee of \$28.80 per apartment per year, subject to the limitation that the fee for a parcel may not exceed the fee for 5 apartment units (\$144 per year).

Monthly meter charges were increased by approximately 7% on the average.

Water Rates

	Monthly meter charge			Water charges Per 100 cu. ft.	
	3/4",	1",	1 1/2"	First 500 ft.	Over 500 ft.
June 1979	2.60	5.00	10.00	.38	.50
July 1983	3.10	5.95	11.90	.475	.595
July 1985	3.10	6.15	12.25	.635	.635
July 1986	3.50	6.75	13.40	.666	.666
July 1987	3.75	7.20	14.25	.709	.709

Average water consumption is 478 cu. ft/apt./month. (See Baar-Keating, Sept. 1982 report, p.IV-9.) For the purpose of estimating the overall rate of increase, the rate of increase for a building of 6 units with average consumption is used.

However, it should be noted that the rate of increase would be smaller for larger buildings, because of the ceiling on the wet weather facilities charge. For example, for a ten unit building the charge would be \$1.20 per month per apartment unit (as compared with \$2.00 per month per unit for a six unit building.)

If a six unit building consumed 28.68 water units the bills for 1985-86, 1986-87, and 1987-88 would be as follows:

WATER COSTS - HYPOTHETICAL 6 UNIT BUILDING

		Elevation Zones		
		0-1	2-5	6 & above
Water consumption	'86-'87	19.10	19.10	19.10 ³
	'87-'88	20.33	20.33	20.33 ⁴
Meter Charge (1" meter)	'86-'87	6.75	6.75	6.75
	'87-'88	7.20	7.20	7.20
Elevation Surcharge	'86-'87	0	3.58 ⁵	7.88 ⁶
Wet Weather facilities charge	'87-'88	12.00 ⁷	12.00	12.00
Total/6 unit bldg.	'86-'87	25.85	29.43	33.73
	'87-'88	39.53	43.11	47.41
Total/Apt Unit	'86-'87	4.30	4.90	5.62
	'87-'88	6.59	7.19	7.90
	% Inc.	53%	47%	40%

For the purposes of calculating the overall water cost increase, the average increase is estimated to be 47%.

³ 28.68 x \$0.666

⁴ 28.68 x \$0.709

⁵ 28.68 x \$0.125

⁶ 28.68 x \$0.275

⁷ 5 x \$28.80 + 12

Rent Increase Required to Cover Increase in Water Rates

Ratio Required		Rate of Increase		Pct. Rent Increase to cover cost increase
.014	x	47%	=	.66

(ii.) sewer treatment

Sewer treatment is a service of E.B.M.U.D., which is determined by water consumption. The average cost for this service is about \$2.84 per month per apartment unit.⁸

There was no increase in sewer service rates during the past year.

(iii.) Sewer service

The sewer service charge (for the maintenance of the sewers) is a municipal charge. It is distinct from sewer treatment which is a charge of E.B.M.U.D.

The ratio of service charges to gross income has been estimated to be 2.3% (.023).

As the table below indicates, sewer service charges for buildings with four units or less are per apartment unit, while charges for buildings with four units or more are based on water consumption.

Rates for buildings with four units or less increased by 88%. Rates for buildings with five or more units increased by 115%. The weighted average of these two increases, assuming that two-thirds of all units are in buildings with 5 or more units, is 105%.⁹

⁸ The basis for this estimate is contained in last year's annual general adjustment report.

⁹

SEWER SERVICE RATES

	4 units or less	5 or more units
July 1984 ¹⁰	\$4.35/apt./mo.	\$0.65/100 cu.ft.
July 1985 ¹¹	\$5.40/apt./mo.	\$0.80/100 cu.ft.
July 1986 ¹²	\$6.80/apt./mo.	\$1.00/100 cu.ft.
July 1987 ¹³	\$12.84/apt./mo.	\$2.15/100 cu.ft.

Rent Increase Required to Cover Increase in Sewer Service Rates

Ratio	Rate of Increase	Pct. Rent Increase Required to Cover Cost Increase
.023 x	105%	= 2.4%

(iv.) City business license fee

The ratio of the city business license fee is fixed by ordinance at a specified percentage of gross income.

The city business license fee for residential properties is \$10.81/\$1,000 gross receipts.¹⁴ Owners who increased their rents by the amount of last year's general adjustment would have incurred an additional increase of approximately 3.5% in this cost, since license fees are tied to rental income.

While the fee was not increased, coverage of the license fee ordinance was extended to buildings with one or two rental units, which had previously been exempted from the fee.¹⁵

¹⁰ Ordinance No. 5544 - N.S.

¹¹ Ordinance No. 5666 - N.S.

¹² Ordinance No. ____ - N.S.

¹³ Ordinance No. 5812 - N.S.

¹⁴ Ordinance No. 5672 - N.S.

¹⁵ Ordinance No. ____ - N.S.

No overall rate increase is computed for the business license fee. While owners of one and two unit buildings will incur a cost increase, it should be noted that in past years the general adjustment provided for increases in business license fees for all owners, even though owners of one and two unit buildings did not incur this cost.

Rent Increase Required to Cover Increase in Business License Fees

Ratio		Rate of Increase		Pct. Rent Increase Required to Cover Cost Increase
.010	x	3.5%	=	.03%

(v.)

Library Assessment

The ratio of the library assessment to gross income has been estimated to be .7% (.007).

The library assessment is \$0.03139/sq. ft. During the past year the assessment was not increased.

(vi.)

Refuse Collection

Refuse collection rates are based on a schedule which takes a substantial number of factors into consideration including, but not limited to: the size of the trash cans or bins, the section of the city, location of cans or bins in relation to the street, number of additional cans at the location, collections per week.

Refuse collection rates were not increased during the past year. (However, the Council has resolved to consider a rate increase in December 1987.¹⁶)

(vii.)

Property taxes

The ratio of property taxes to gross income has been estimated to be 6.5% (.065).

Under Proposition 13, property tax increases are limited to 2% per year except upon sale of a property. In past years, for the purpose of calculating the annual general adjustments, it has been assumed that property taxes have increased by this rate.

In fact, property taxes have increased by more than 2% per year on the average, because about one-quarter of Berkeley's apartment buildings have been sold within the past five years. However, the distribution of those increases has been skewed. A discussion of those increases was included in last year's annual general report.

Rent Increase Required to Cover Increase in Property Taxes

Ratio		Rate of Increase		Pct. Rent Increase Required to Cover Cost Increase
.065	x	2%	=	.13

¹⁶ City Council Resolution 87-63, June 30, 1987

(viii.)

Insurance

Three years ago the ratio of insurance costs to gross rental income was estimated to be 3.5% (.035).¹⁷ In the September 1985 report, it was estimated that insurance costs had increased by 22%, resulting in an increase in the ratio to 4.3% (.043). Last year, it was estimated that insurance costs had increased by 43%.

During the past few years insurance costs have substantially increased. The rate increases have been the subject of wide publicity.

However, the insurance industry does not compile data on average insurance costs and cost increases for apartment owners. Insurance rate changes vary among companies and among the insureds of each company. Two years ago, insurance industry interviewees indicated that obtaining a fairly precise estimate of the average increase was an impossible task. They emphasized that cost increases varied enormously among properties.

Companies have substantially different rates for small owner-occupied buildings which qualify for home owners' insurance, other smaller buildings insured as "personal lines", and larger buildings insured under "commercial" policies. Companies issue a variety of separate property and liability policies and combined insurance packages.

Insurance costs for individual buildings are dependent on a panoply of factors, in addition to base rates, including: age of building, size of building, experience discounts, high risk surcharges. A change in any one or more of these rate setting factors can have varying effects on apartment owners. Insurance costs also may be increased as a result of companies refusing to renew policies and thereby requiring owners to obtain policies from other companies which charge higher rates.

As a part of this year's study (as in the past two years), owners of rental units were requested by phone to provide information about their insurance costs for the current and prior years. (As in past years, this information was not verified by the surveyors.)

A high percentage (40%) of owners would not give out information or gave only partial responses.¹⁸ This compares with

¹⁷ See the September 1982 operating cost study.

¹⁸ At a September meeting of the Annual General Adjustment Subcommittee several owners indicated that they never would have given out information to strangers over the phone and suggested a mail survey. Typically mail surveys have much lower response rates.

a 28% refusal rate in last year's survey.

PARTICIPATION IN INSURANCE SURVEY

Complete responses	57
Refused	39*

* This figure does not include interviewees who indicated that they were not supplying the information because it was not readily available.

The sample of completed interviews is large enough to provide statistically significant information. However, it is not known if it is biased by the refusals, since it is not known whether the interviewees who refused had a significantly different experience than those who participated. (In some surveys, the bias created by refusals might be clear. For example, the bias may be clear if in a health survey there was a high refusal rate among interviewees of a particular age group.) In this case, there would be significant bias if those who refused experienced significantly lower or higher insurance cost increases than those who responded.

It may be that interviewees with high insurance cost increases may be more likely to respond than those with little or no increase, since it does not serve an owner's interest to document a lack of increases in insurance costs.¹⁹

The information provided by the respondents indicated an increase of 27% in insurance costs.

¹⁹ The purpose of this comment is not to criticize apartment owners, but rather to point out that there may be response bias in any case in which particular responses will benefit those being surveyed.

INSURANCE COST INCREASES
SELECTED CHARACTERISTICS

Characteristic	No. of bldgs.	Pct. Increase
Bldg. size 1-4 units	36	17%
Bldg. size 5 or more units	21	32%
All	57	27%*
10% or less	24	

* Weighted Average, computed by comparing this year's and last year's total premiums.

However, in considering the averages, it is critical to note that some respondents experienced very large increases, while others indicated that they had no increase or a relatively small increase. 24 respondents indicated an increase of 10% or less. (In a few cases, insurance costs decreased.)

Also, there were extraordinary differences in the cost of insurance. Some owners had costs in excess of \$500 per year per apartment unit, compared with an average premium of \$227 per year per apartment unit.

In light of enormous variations in cost increases among buildings and issues relating to the rate of responses in the survey no calculation is made of the average rent increase required to cover cost increases.

(ix.)

Management

In calculating the 1983 general adjustment, the Board assumed that management costs increased by the amount of the prior general adjustment, based on the theory that management fees are usually fixed at a percentage of rental income (typically 6% in the real estate industry). In calculating the 1984 general adjustment, the Board concluded (in its general adjustment resolution) that there had been no increase in management costs due to the reduction in turnover of tenants.

The 1985 annual general adjustment report recommended that:

if any assumptions are made about increases in management expenses in calculating this year's and future general adjustments, that a measure other than the prior year's general adjustment be used to calculate increases in management expenses. (For most units, management consists of owner labor rather than professional management.) Otherwise, circular results will follow: a low general adjustment will lead to a low allowance for increased management expenses in the following year and a high general adjustment will lead to a high allowance for increased management expenses in the following year. If estimates of increases in management costs are made on the basis of an index, then it is recommended that either the Employment Cost Index for civilian workers or the CPI-all items less shelter be used. (In this report, the CPI-all items less shelter is used.)

It is also recommended that the management cost ratio be maintained at 6%, an industry average, for the purposes of calculating annual general adjustments. (This is a deviation from the process used to adjust other ratios, which are adjusted on annual basis in order to reflect the fact that operating cost ratios change when operating costs increase at a different rate than rents.)"

The CPI all items-less shelter, has been used as the measure of management cost increases in the past two years.

This year the CPI-all items less shelter increased by 1.7% (from a level of 311.8 in June 1986 to 317.1 in June 1987). This figure is used in estimating the rent increase required to cover management cost increases. (If the CPI-all items had been used, the percentage rent increase required to cover the management cost increase would have been 0.1% higher.)

Rent Increase Required to Cover Increases in Management Expenses

Ratio Required		Rate of Increase		Pct. Rent Increase
.06	x	1.7%	=	.10

(x.)

Maintenance

Maintenance is the largest of the operating expenses. It has also been the center of dispute in past Board operating cost analyses. The Board does not have data on actual maintenance expenses, except in individual adjustment cases. In past years, the Board has usually relied on assumptions in estimating maintenance cost increases.

In the September 1982 Baar-Keating report, it was estimated that the ratio of maintenance expenses to gross income was .20 (20%), and it was assumed that maintenance expenses increased by the rate of increase in the CPI-all items (11.2%). However, the use of the 20% ratio and the 11.2% rate of increase were made subject to a caveat that both of these figures seemed high. Subsequently, the Board adopted a staff analysis which assumed that maintenance expenses increased by the CPI-all items less shelter (8.5%). The argument for using the all-items less shelter index was that the all-items index was overly sensitive to changes in mortgage interest rates and house prices, which do not really influence maintenance costs.

In January 1983, the Bureau of Labor Statistics revised its methodology to reduce (but not eliminate) the weight of house purchase and new financing costs in its market basket of goods which is used to calculate the Consumer Price Index-all items.

In 1983 it was estimated that the maintenance expense to gross income ratio was .14 (14%). Rationale for adjusting the ratio are set out at length in the 1983 Baar-Keating report. The basis for the adjustment in the ratio was not that maintenance expenses had decreased, but rather that the prior year's ratio estimate was too high.

In the Baar-Keating 1983 report, following the procedure adopted by the Board in the prior year, it was assumed that maintenance expenses increased by the rate of increase in the CPI-all items less shelter (2.8%). If that assumption had been used, a 0.39% rent increase would have been required to cover increases in maintenance costs. However, at the end of its hearings the Board did not grant a rent increase. One of the bases for its decision was a report by Commissioners Brauer, Illgen, and Callejo which concluded that maintenance costs had not increased.

If it is assumed that during the period July 1986 - June 1987 maintenance expenses increased by the rate of increase of the CPI-all items less shelter, 1.7%, then a 0.24% rent increase would be required to cover maintenance cost increases. Other conclusions and/or assumptions about the maintenance expense ratio or rates of increase in maintenance expenses would lead to

other results. If a 20% ratio were used, the required rent increase would be 0.1% higher.

If the CPI-all items had been used, the estimated increase would have been 0.44% (.141 x 3.1%). In past years, landlords and tenants have alternatively argued that either the CPI-all items or the CPI-all items less shelter is a more appropriate index. The position taken by each side has been determined by which index would yield the most desirable result. This report has used the CPI-all items less shelter in each of the past few years with the intent of maintaining consistency regardless of which side may be favored by that consistency.

Rent Increase Estimated as Necessary to Cover Maintenance Cost Increases

Ratio		Rate of Increase		Pct. Rent Increase Required to Cover Cost Increase
.141	x	1.7%	=	.24

(xi.) Landscaping, Street Lighting, &
Park Maintenance Assessments

In the summer of 1982, the city instituted assessments for landscaping, street lighting, and park maintenance assessments. These assessments are calculated on the basis of the same methodology as the library assessment, according to square footage.

The ratio of the landscaping, street lighting, and park maintenance assessments is estimated to be 1.8% (.018).

Effective July 1987, combined total of the landscaping, street lighting, and park maintenance assessments was increased from \$0.0672 per sq. ft. to \$0.0770 per sq. ft., an increase of 15%.

Rent Increase Required to Cover Landscaping, Street Lighting, and Park Maintenance Assessment Increases

Ratio		Rate of Increase		Pct. Rent Increase Required to Cover Cost Increase
.018	x	15%	=	.27

(xii.) Rent Board Registration Fee

This year, the Rent Stabilization Board's registration fee was increased by \$20 per unit per year (\$1.67/month).

Assuming that the median monthly rent in Berkeley is approximately \$330 per month,²⁰ a rent increase of 0.5% would be required to cover this cost increase.

Rent Increase Required to Cover Registration Fee Increase

Rate of Increase		Pct. Rent Increase Required to Cover Cost Increase
\$1.67/month	=	.5

(xii.) Gas

In most units, landlords do not pay for heat. A 1983 Board survey indicated that only about 12% of all owners pay for gas heat. (See Baar-Keating, summer 1983 annual general adjustment report)

Since June 1986 gas rates have not changed significantly.

Gas Rates

	Baseline ²¹	Excess
May 1984	\$0.46298/therm	\$0.70533/therm
August 1984	0.47433	0.74661
August 1985	0.40570	0.80821
June 1986*	0.38672	0.74005
January 1987	0.38102	0.75007

*In addition there is a city utility tax of 5.5%.

²⁰ An October 1984 survey (Baar & LeGates, Rental Housing under the Berkeley Rent Stabilization Ordinance: A Survey of Tenants and Landlords (Oct. 4, 1984)) indicated that median rents were approximately \$300 per month. Since then, rent increases of 9.4% (a compounded total) have been authorized, resulting in a current median of approximately \$330 per month.

²¹ The baseline allowance is 1.3 therms/day in the summer and 2.2 therms/day in the winter.

(xiv.)

electricity

Electricity rates for Tier I consumption²² have not changed significantly since last year.

Tiers II and III have been combined for rate setting purposes, with a rate which is between the former Tier II and Tier III rates.

Electricity Rates

	Tier I	Tier II	Tier III
July 1984	\$0.055	\$0.071	\$0.091
August 1984	0.063	0.082	0.106
April 1985	0.070	0.091	0.119
Sept. 1985	0.067	0.087	0.113
Sept. 1986	0.065	0.084	0.110
Jan. 1987	0.065	[.103]	

(The city utility tax is 5.5%.)

²² Tier I consumption levels are 6.6 kilowatt hours/day in the summer and 7.7 kilowatt hours per days in the winter.

(xv.) School Property Assessment (Measure H)

In Nov. 1986, city voters adopted an ordinance which provides for an assessment of \$0.07 per sq. ft. of improved real property.

The amount of this assessment is comparable to the combined total of the landscaping, park maintenance, and street lighting assessments (which was \$0.067/sq. ft. in the past fiscal year.) The latter assessment was estimated to equal 1.8% of gross rents.

Using the above estimates, it is estimated that the Measure H assessment will equal approximately 1.9% of gross rents (or 5% more than the landscaping, park maintenance, and street lighting assessment.

Rent Increase Required to Cover Measure H Property Assessment

Pct. Rent Increase Required
to Cover Cost Increase

1.9%

IV. OVERALL RENT INCREASES REQUIRED TO COVER OPERATING COST INCREASES

Expense	Ratio	Pct. Increase in Expense		Pct. Rent Increase Required	
Water	.014	x	47%	=	.66
Sewer Treatment	.011	x	none	=	-
Sewer Service	.023	x	105%	=	2.40
City Bus. License	.010	x	3.5%	=	.03
Library Assessment	.007	x	none	=	-
Refuse Collection	.025	x	none	=	-
Property Taxes	.066	x	2%	=	.13
Insurance	[see discussion]				
Management	.06	x	1.7%	=	.10
Maintenance	.141	x	1.7%	=	.24
Landscaping, Park Maintenance & Street Lighting	.018	x	15%	=	.27
Rent Board Registration Fee			\$1.67/mo./ apt. unit		.50
School Tax (Measure H)			new assessment		1.90
Gas (hot water only)	.024	x	none	=	-
Electricity (common areas only)	.025	x	none	=	-
<u>Master Metered Buildings</u>					
gas heat	.055		none	=	-
all electricity	.054	x	none	=	-

VI. Methodologies for Implementing Rent Increases

In recent years, there has been discussion of whether the annual general adjustment should be a fixed dollar amount, rather than a fixed percentage.

The uniform percentage increase method has been criticized because it gives the smallest increases to the apartment units with the lowest rents, despite the fact that low rent units might incur operating cost increases that are comparable, in absolute dollars, to those incurred for higher rent units. Also, the uniform percentage method increases the dollar gap between high rent and low rent units.

Empirical comparisons of operating expenses for low and high rent units have not been performed. However, the 1984 tenant survey indicated that most units have two bedrooms or less (459 out of 495 cases). Variations in rents were partially attributable to unit size; however, there were also substantial rent variations among comparably sized units. (See page 34 of the September 1985 annual general adjustment report.)

Two of the significant cost increases of the past year, the wet weather facilities fee of E.B.M.U.D. and the registration fee are not determined by unit size. Sewer service charges for units in buildings with four units or less are uniform, regardless of the size of the unit.

The Measure H assessment is tied to square footage of buildings and therefore will have some correlation with unit sizes. The sewer service cost increase for buildings with more than 4 units is tied to water consumption, and therefore, to the number of occupants of an apartment. It would take further research, to estimate the degree of uniformity or differences in cost increases among different apartment units and to determine the extent to which these cost increases correlate with rent levels.

While uniform dollar increases, as opposed to uniform percentage increases, have not been common among the 200 municipal rent control laws in the U.S., there has not been much discussion about why one method is superior or inferior to the other.

Arguments can be made for and against both types of methodologies. In light of the strengths and weaknesses of each methodology, the most balanced approach may be to make use of different methodologies in different years.



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